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# ABENOMICS IS PROGRESSING

TOWARDS THE REINVIGORATION OF THE JAPANESE ECONOMY

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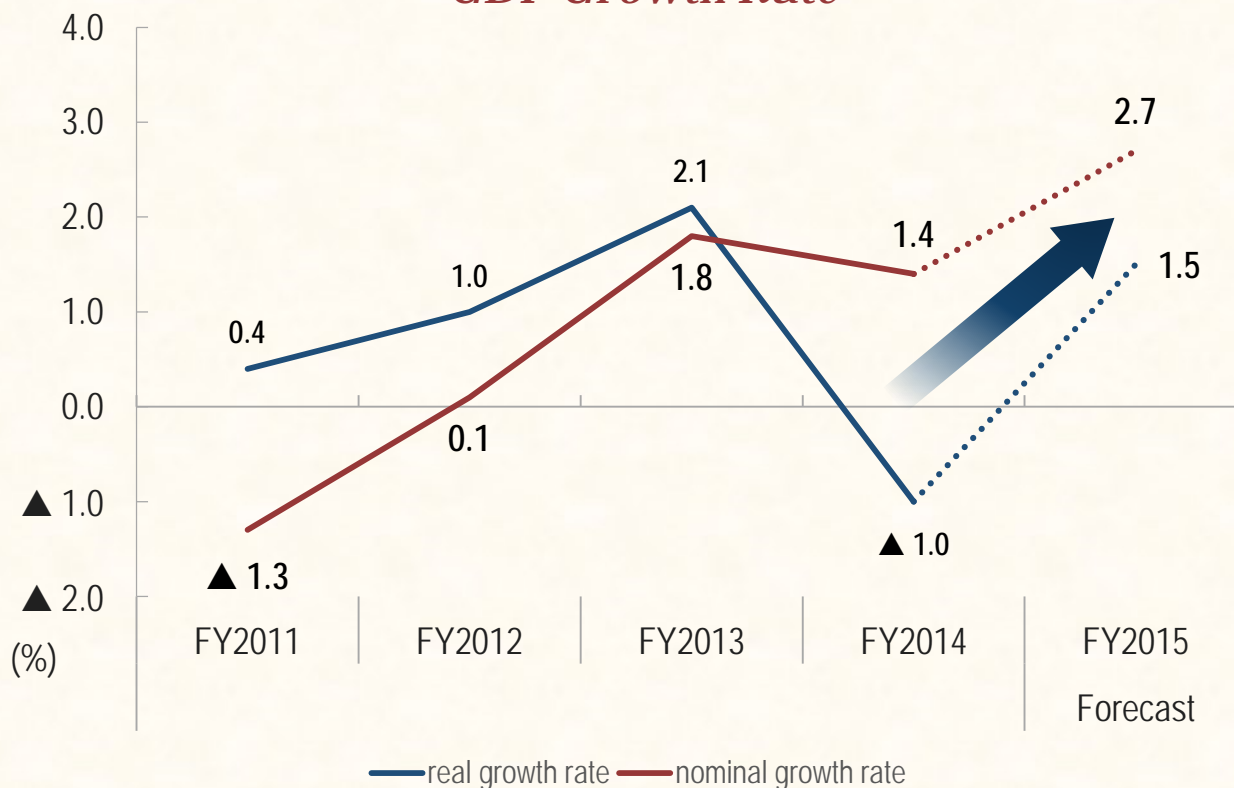
JUNE 2015



# I. ECONOMIC RECOVERY

***The economy is expected to exit deflation and is on track for steady recovery***

***GDP Growth Rate***



## ***Key contributors***

- BOJ monetary easing
- Yen depreciation
- Falling crude oil prices
- Anticipated real wage increases

***Q1 2015: GDP +2.4%***  
***Q4 2014: GDP +1.1%***  
at an annual rate

Two consecutive quarters of positive economic growth

# I. ECONOMIC RECOVERY

## *Exports are up and Japanese businesses are recovering*

- Profits earned overseas increased in Yen terms
- Crude oil prices dropped by 50% between Jun. 2014 and Dec. 2014
  - 2-3 trillion yen increase in nominal corporate profits and employee nominal compensation

*Export volume index*



# I. ECONOMIC RECOVERY

## *Corporate recovery is driving wage increases*

- Business leaders agreed to incur higher raw material costs to support financial recovery of SME suppliers (Dec. 2014)
- Workers' union spring labor offensive resulted in a 2.28% average wage increase\* for FY2015, which was 2.11% for FY2014 (May. 2015)

\* Preliminary result.  
Sample size: 3,439 enterprise unions

*Gross income of employees (YoY)*

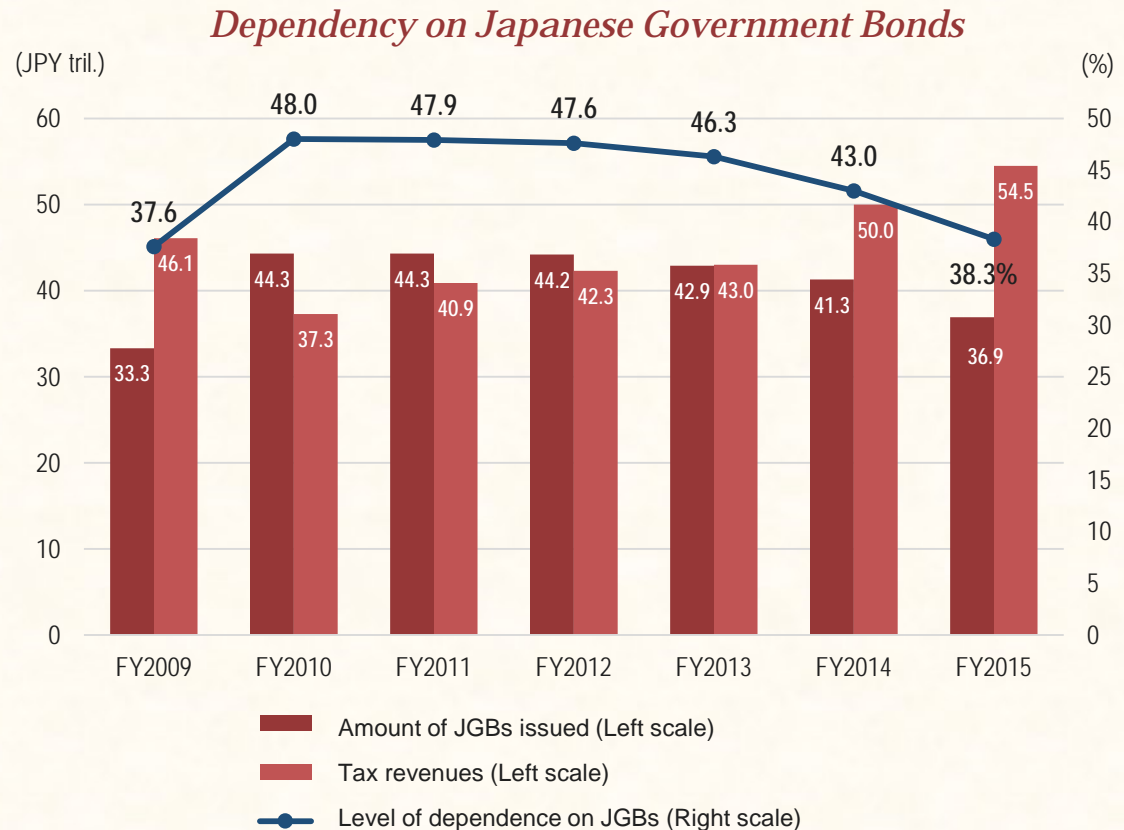


\* Real gross income of employees excludes impact of consumption tax increase (assumed to be 2%) after Apr. 2014.

## II. FISCAL CONSOLIDATION PROGRESS

### *Tax revenue is up and dependency on Japanese Government Bonds is declining*

- On target to reduce primary deficit to GDP ratio by half (from minus 6.6% in FY2010 to minus 3.3% in FY2015)
- Moving as planned to achieve primary surplus by 2020
  - a. Advancing on concrete fiscal consolidation plan by summer 2015
  - b. Set to implement consumption tax increase to 10% in April 2017



# III. CORPORATE EARNING POWER ENHANCEMENT

## ***Companies are expected to benefit from a new Corporate Governance Code and a series of planned tax rate reductions***

### ***A new Corporate Governance Code***

The exposure draft of Japan's Governance Code was published (Dec. 2014)

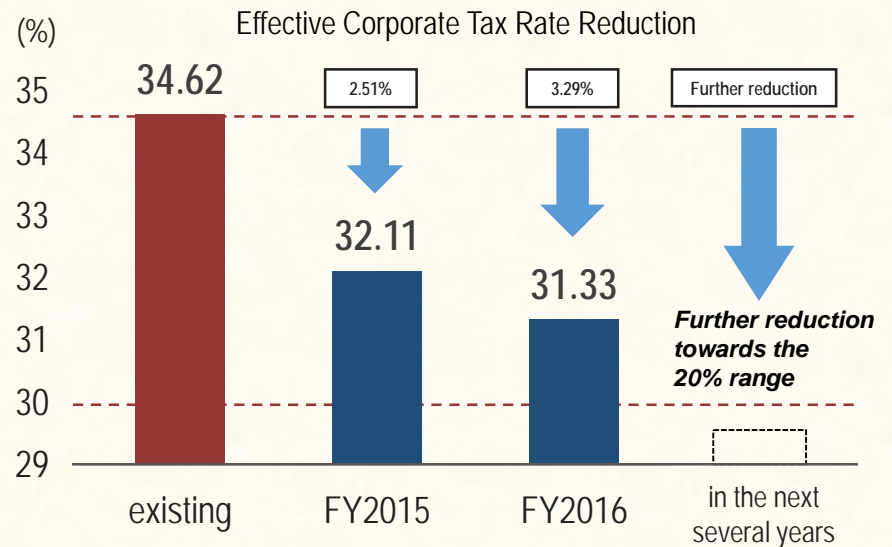
#### Corporate Governance Code (Draft)

##### Highlights

1. Explain the objective and rationale in case of stock cross-holdings
2. Publish information on nomination and remuneration policies for board members
3. Appoint no less than 2 independent outside directors

### ***A series of tax rate reductions***

Cabinet meeting concluded to reduce effective corporate tax rates for 2015 and 2016 (Jan. 2015)



Expected results are (a) Increased corporate profits and (b) Raised dividends by 30% of listed companies

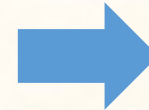


# IV. FINANCIAL AND CAPITAL MARKETS STIMULATION

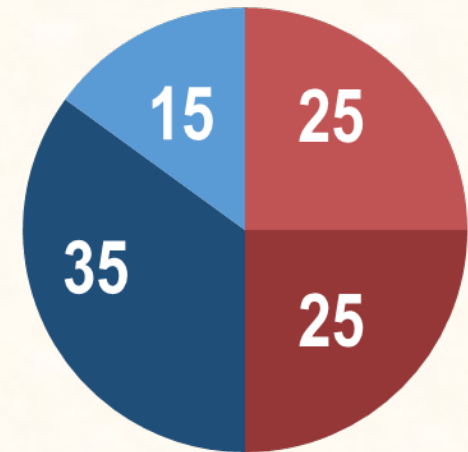
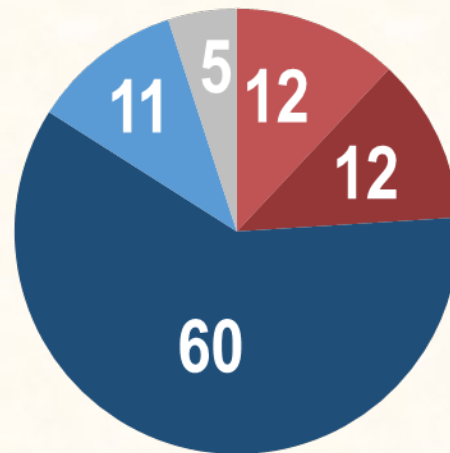
## ***Improved governance and management of the Government Pension Investment Fund is now in progress***

- A new policy asset mix has been adopted
- Reinforcement of the governance of the GPIF structure is now in progress

*Previous Portfolio*



*New Portfolio*



(%)

- Domestic Bonds
- Domestic Stocks
- International Bonds
- International Stocks
- Short-term assets

# V. OUR REFORMS



*Agriculture*



*Healthcare*



*Energy*



*Labor*



*Pilot Initiatives*



## V. OUR REFORMS

# 1. AGRICULTURAL SECTOR REFORM



## *First major structural reform and deregulation in 60 years*

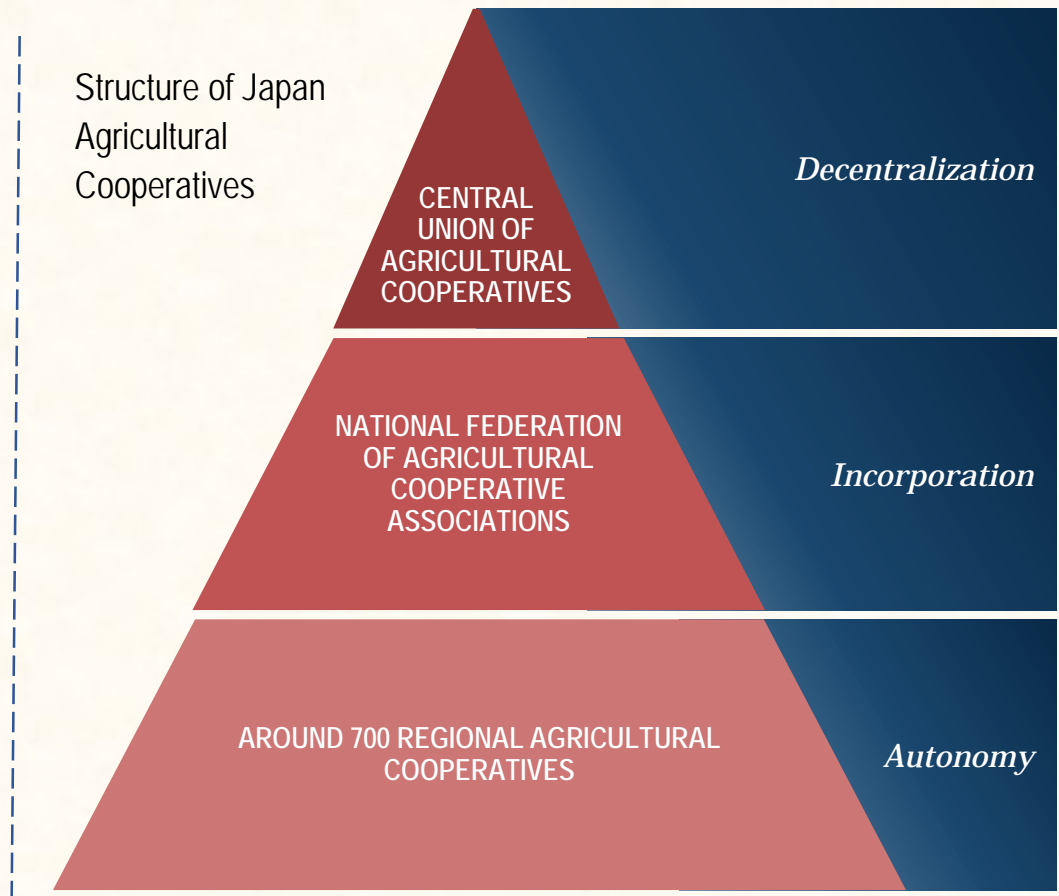
### *Opening the door to new and modern business opportunities*

- Reform the Agricultural Cooperative system to encourage entrepreneurialism and seek new market entrants<sup>1</sup>
- Relax requirements to form Agricultural Production Corporations<sup>2</sup>
- Remove Rice Production Adjustment program

### *Consolidating scattered farmland and optimizing use*

### *Establishing product-specific export organizations to promote exports*

→ Reference : 611.7 billion yen in exports of agriculture/forestry/fishery products and foods is a record high



## 2. HEALTHCARE SECTOR REFORM



### ***A shot in the arm to energize the healthcare industry***

#### ***Accelerate the commercialization of regenerative medicine<sup>1</sup>***

- Allow outsourcing of culturing and processing of cells
- Enact an adaptive licensing approval system, making Japan the fastest country for commercialization of regenerative medicine

#### ***Create a new system for combining insured and uninsured medical services<sup>2</sup>***

- Allow patients to receive prompt advanced medical care at preferred medical institutions upon request

#### ***Promote business alliances through a new healthcare corporation system<sup>3</sup>***

- Allow for consolidated and integrated management of multiple medical corporations
  - Provides efficient and high-quality medical and nursing care services in each region

#### ***Recent cases***

- Pharmaceutical venture SanBio (developing and marketing regenerative therapies) transferred its headquarters function from California to Tokyo
- Pluristem Therapeutics (Israel) (culturing cells) is considering an alliance with Japanese companies
- ReNeuron (UK) (stem cell regenerative therapies) is considering an investment in Japan
- Terumo Corporation (JP) entered the regenerative medicine market

## V. OUR REFORMS

# 3. ENERGY MARKET REFORM



## *First comprehensive electricity and gas market reform in 60 years*

### *Electricity market reform*

- Full liberalization of the retail electricity market in its entirety by 2016 to allow new entrants to the retail market across sectors
- Legal unbundling of generation, transmission and distribution by 2020<sup>1</sup>

#### Roadmap

- a. Expansion of nationwide grid (planned for 2015)
- b. Modification of retail electricity sector (planned for 2016)
- c. Legal separation between electricity generators and distributors, and Deregulation of retail prices (planned for 2020)

### *Gas market reform<sup>2</sup>*

- Full liberalization of the retail gas market by 2017
- Legal unbundling of gas infrastructure in metropolitan areas by 2022

### *Recent cases*

- Number of companies able to provide retail power sales has increased by 80% in the last 19 months.
- Alliances successively realized between companies across regions and sectors in power generation



# 4. LABOR MARKET REFORM

## ***Aggressive initiatives in motion as well as in the pipe line covering three critical pillars***

### ***A. Expatriate Careers***

- Relax requirements to be accredited as highly skilled foreign professionals, and introduce a new type of residence status with an unlimited period of stay
- Revise current Technical Intern Training System with more job categories, increased admission quota and an extended training period
- Accept more foreign employees working at overseas subsidiaries of Japanese corporations
- Enable foreign nationals to work in the field of nursing care
- Leverage National Strategic Special Zones to promote entrepreneurship for non-Japanese start-ups etc.

### ***B. Women in Business***

- Secure additional childcare capacity for approximately 400,000 children by the end of FY2017
- Increase childcare leave salary from 50% to 67% which is applied to the first 6 months of leave
- Aim to increase the proportion of women in management positions to 30% by 2020

### ***C. Working Conditions***

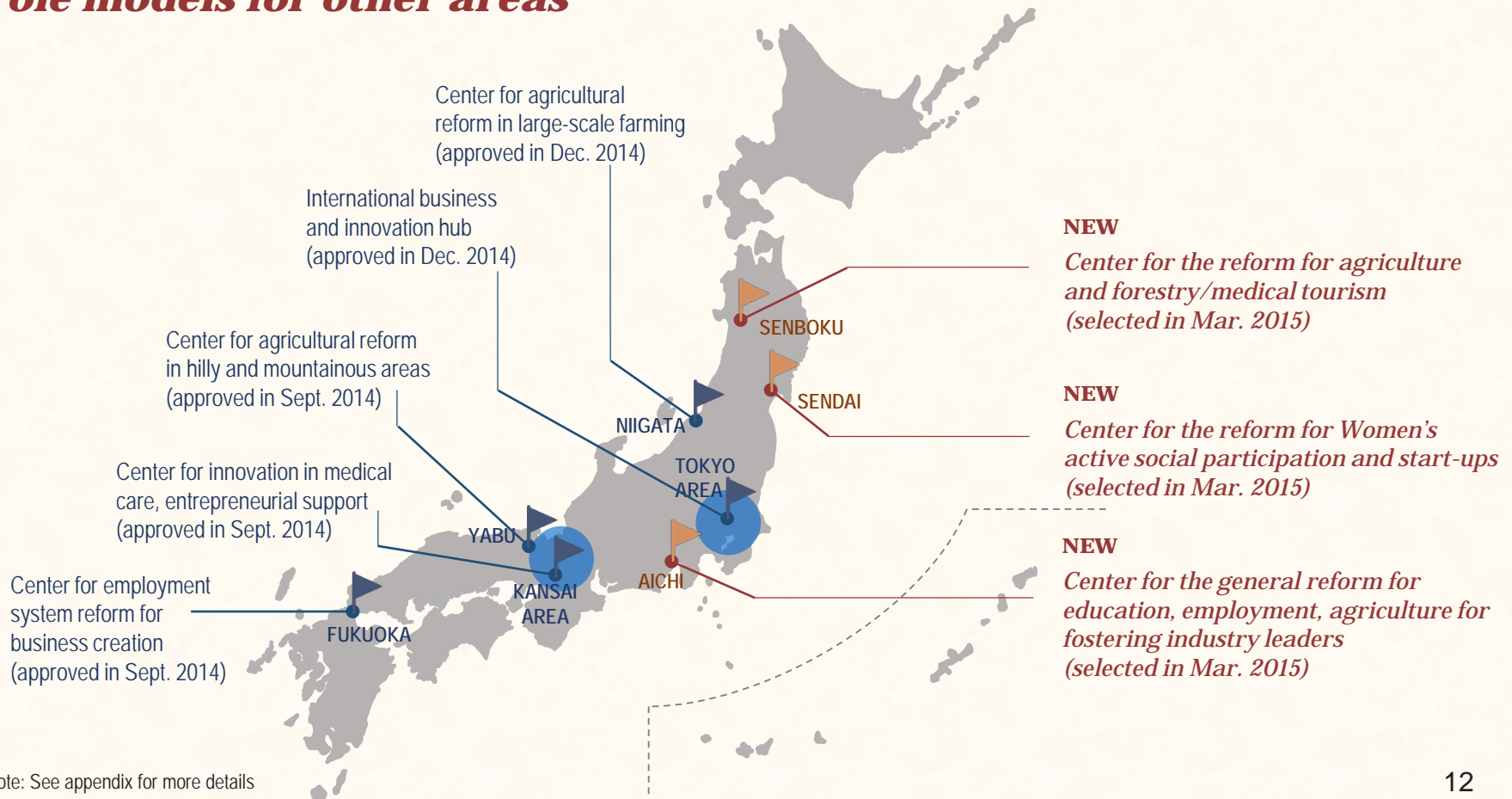
- Extend adjustment period from one month to three to implement flex-time
- Increase activities covered under Discretionary Working System
- Create a new working system which evaluates workers based on professional skills and performance instead of working hours

## V. OUR REFORMS

# 5. PILOT INITIATIVES IN SPECIAL ZONES



***8 strategic pilot initiatives take advantage of multiple reforms to cultivate regional economic growth and become role models for other areas***



Note: See appendix for more details



## VI. FOREIGN DIRECT INVESTMENT PROMOTION

***A commitment to become a more universal business environment by resolving inconveniences often cited by foreign enterprises operating in Japan***

Five Commitments for Attracting Foreign Businesses to Japan (Mar. 2015)

### ***1. Overcome language barriers***

#### **Retailers**

Set the standard for QR codes for mobile phones to read product information in English and other languages

#### **Restaurants**

Make multiple-language menus widely available

### ***2. Facilitate better Internet connectivity***

#### **Free Wi-Fi**

Create an environment in which foreign visitors can use free public wireless LAN (Free Wi-Fi) simply and easily at various locations around cities

### ***3. Accommodate business jets at local airports***

#### **Customs, Immigration and Quarantine (CIQ)**

Consider accepting business jets if CIQ offices are notified one week prior to the flight at local airports currently requiring two-week advance notice

### ***4. Enhance educational environment for foreign children***

#### **International schools**

Encourage prefectures to loosen their criteria for accrediting international schools as Miscellaneous Schools

### ***5. Strengthen services to support foreign enterprises***

#### **Consultation services**

Establish a system for State Ministers to act as advisors for foreign businesses



## A. Expatriate Careers

### *Invite Talented People From Overseas*

#### (1) Attract highly skilled foreign professionals

- Relaxed requirements of salary level and research achievements to be accredited as highly skilled foreign professionals (Dec. 2013)
- Created a new type of residence status with an unlimited period of stay<sup>1</sup>

#### (2) Revise current Technical Intern Training System<sup>2</sup>

- Dramatically strengthen management and supervisory structures
- Establish new public administrative authority
- Expand job categories covered by the system
- Extend training period to 5 years
- Expand admission quota

#### (3) Accept foreign workers at overseas subsidiaries of Japanese corporations

#### (4) Enable foreign nationals to work in the field of nursing care

#### (5) Leverage National Strategic Special Zones<sup>3</sup>

- Promote entrepreneurship for non-Japanese to start businesses, revising requirements for status of residence
- Accept foreign housekeeping support workers

## B. Women in Business

### *Support to balance work and childcare*

#### (1) Secure additional childcare capacity

- Secure additional childcare capacity for approximately 400,000 children by the end of FY2017

#### (2) Expand childcare leave benefits

- 50% → 67% of salary prior to start of leave for the first 6 months<sup>4</sup>

### *Encourage the promotion of women*

#### (1) Aim to increase the proportion of women in management positions to 30% by 2020

- Make public progress for the promotion of women in companies
- Mandate companies to specify the percentage of women in executive posts in Annual Securities Report<sup>5</sup>
- Create legal framework to require enterprises to create action plan for participation and advancement of women<sup>6</sup>

#### Where we are on promoting women

- Women in management positions in the private sector:

**6.9% (Jun. 2012) → 8.3% (Jun. 2014)**

- Listed companies are pledging to appoint at least one female director

- In the public sector, female government officials with a position equivalent to chief of bureau or higher: **8 women (before the personnel reshuffling in the summer of 2014) → 15 women (as of Aug. 2014, after the reshuffle)**

## Appendix

### V -5. NATIONAL STRATEGIC SPECIAL ZONES PROGRESS

AREA	EXAMPLES OF REFORMS	APPROVAL
<b><i>Yabu, Hyogo Pref.</i></b> (Center for agricultural reform in hilly and mountainous areas)	<ul style="list-style-type: none"> <li>All procedures related to transfer of farmland managed by Yabu City mayor (no longer by the Agricultural Committee)</li> <li>Private companies will produce and process crops as an exception to the Agricultural Land Act</li> <li>Private companies will collaborate with local organizations to provide old Japanese-style houses to accommodate tourists</li> </ul>	Sep. 2014 Zone Plan approved (added in Jan. 2015)
<b><i>Fukuoka city</i></b> (Center for employment system reform for business creation)	<ul style="list-style-type: none"> <li>Support start-ups by creating a Consultation Center to clarify the conditions of employment</li> <li>MICE (conferences, exhibitions etc.) can be made more attractive and promoted by holding events that attract tourists and business people</li> </ul>	Sep. 2014 Zone Plan approved and added
<b><i>Kansai area</i></b> (Center for innovation in medical care, entrepreneurial support)	<ul style="list-style-type: none"> <li>Accelerate assessment procedures for advanced medical treatment for medicines already approved for use in other countries</li> <li>Increase in the number of hospital beds is planned through exceptional measures</li> <li>Establish Employment and Labor Counseling Center to support start-ups and foreign companies *approved Dec. 2014</li> </ul>	Sep. 2014 Zone Plan approved (added in Mar. 2015)
<b><i>Tokyo area</i></b> (International business and innovation hub)	<ul style="list-style-type: none"> <li>Aims to support foreign companies and ventures, One-Stop Business Establishment Center will be established for start-ups to clarify the conditions of employment and work. (Added in Dec.2014.)</li> </ul>	Dec. 2014 Zone Plan approved (added in Mar. 2015)
<b><i>Niigata city</i></b> (Center for agricultural reform in large-scale farming)	<ul style="list-style-type: none"> <li>Due to the deregulation on Agriculture Production Corporations, private companies will be able to enter agricultural businesses to grow crops including rice, and open restaurants within their farmland.</li> <li>A part of the procedures related to transfer of farmland is managed by the Niigata City Mayor</li> </ul>	Dec. 2014 Zone Plan approved

*3 new zones selected from the perspective of Overcoming Population Decline and Vitalizing Local Economy (selected in Mar. 2015)*

ZONE	OVERVIEW OF ZONE POLICY DRAFTS
<b><i>Senboku City, Akita Pref.</i></b> (Center for the reform for agriculture and forestry/medical tourism)	<ul style="list-style-type: none"> <li>Allows private sector to utilize the national forest, for grazing and technology demonstrations of drones, etc.</li> <li>Allows foreign doctors to engage in medical activities at tourist sites such as hot spring areas</li> </ul>
<b><i>Sendai City, Miyagi Pref.</i></b> (Center for the reform for Women's active social participation and start-ups)	<ul style="list-style-type: none"> <li>Accelerates the start-up procedures and conducting additional qualification exam for nursery teachers in designated areas to promote start-ups by women, young people and seniors</li> <li>Future technology development and demonstration test for fully automated driving vehicles etc.</li> </ul>
<b><i>Aichi Pref.</i></b> (Center for the general reform for education, employment, agriculture for fostering industry leaders)	<ul style="list-style-type: none"> <li>Foster human resources for industries, utilizing public schools run by private sector</li> <li>Create a center for growing industries and advanced technologies through next-generation technologies</li> <li>Promote transfer of farmland and utilization of abandoned farmland through reforms on the agriculture committee</li> </ul>